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SUBJECT: DAS McMULLEN MEETS WITH ECONOMIC, ENERGY, AND BUSINESS
AUTHORITIES IN CHILE

REF: SANTIAGO 162

¶1. (SBU) SUMMARY: DAS Christopher McMullen met with officials at the Ministry of Finance, the National Energy Commission, business leaders, and the Central Bank Governor during his visit to Chile February 12-13. Senior Finance Ministry staff told DAS McMullen that Chile's process to accede to the Organization for Economic Cooperation and Development (OECD) is moving ahead and bank secrecy legislation is expected in March. The Acting Minister of Energy reported on the GOC's efforts to promote renewable energy and energy efficiency in Chile. Business leaders described the tough environment they face as a result of the global financial turmoil. The Central Bank Governor asked the U.S. to promote Chile as a model of "prudent capitalism" in the wake of the world economic crisis and noted the economy's sound fundamentals. END SUMMARY.

¶2. (U) On February 12, DAS McMullen met with Ministry of Finance International Affairs Coordinator Raul Saez and separately with Acting Minister of Energy (and head of the National Energy Commission - CNE) Rodrigo Iglesias. On February 13, the Ambassador hosted a breakfast for DAS McMullen and business leaders including: President of AmCham Ricardo Garcia, General Manager for the Chilean Mining Council Javier Cox, Corporate General Manager for Falabella (retail store chain) Juan Pablo Montero, Director of Research for CODELCO (Chile's state-owned copper company) Maria De Los Angeles Perez, Vice-President of Chile's Exporters Association (ASEXMA) Patricia Perez. In a separate meeting February 13, DAS McMullen met with Central Bank Governor Jose De Gregorio. The Ambassador, ESTHoff, and E/Poloff accompanied DAS McMullen to the energy meeting. The Ambassador, E/Pol Counselor, and Econoff accompanied DAS McMullen to all the other meetings.

Finance Meeting: OECD Accession Moving Ahead

¶3. (SBU) At a meeting scheduled with Acting Finance Minister Maria Olivia Recart (who was unable to attend due to a conflicting appointment), DAS McMullen asked International Affairs Coordinator Saez about the state of Chile's economy. Saez noted the impact of the global financial crisis had definitely hit Chile. However, the country was well positioned to bear the brunt of the world-wide downturn with positive growth expected in 2009. In addition, he noted implementation of the GOC's recently unveiled stimulus package is going well.

¶4. (SBU) Saez stated that the OECD accession process is moving ahead. The GOC needs to adopt legislation to resolve two key issues before Chile can accede. A law loosening bank secrecy protections will be required to permit the exchange of information for tax

purposes. In addition, two other new laws will be necessary to implement Chile's obligations under the OECD Anti-Bribery Convention. Saez reported the GOC intends to place draft legislation on both issues before Congress in March, so that it can be approved by June, and Chile can join the OECD by December 2009 or January 2010 (in keeping with President Bachelet's desire to become a member by the end of her term).

Energy Meeting: Chile Focused on Renewables

¶5. (SBU) During DAS McMullen's meeting with Acting Energy Minister Iglesias, he was told that responsibility for energy policy is currently distributed among several government agencies. The formation of a Ministry of Energy is still under discussion in the Congress, but will likely be resolved by the end of 2009. Iglesias emphasized the new Ministry of Energy will be responsible for sustainable energy policies and long-term planning, while CNE will focus on regulation. Key policy themes will be environmental protection, global warming, and renewables.

¶6. (SBU) Iglesias said the GOC wants to promote renewable energy and explore the possibility of using nuclear technology. However, the cost of both will be the major factor. He cited collaboration with Argentina as an example of how to make technology cost effective, although it involves political challenges. Iglesias also referred to Chile's March 2008 law requiring that 5 percent of electricity be generated from non-conventional renewable sources (i.e., not large hydroelectric) by 2010 and ten percent by 2024. He said the law is not very strong and falling oil prices make renewables less attractive.

¶7. (SBU) In response to DAS McMullen's question about nuclear

studies commissioned by CNE, Iglesias clarified there will be no decision on nuclear energy during President Bachelet's administration. He stressed Chile is committed to increasing energy efficiency through its program launched in 2005. However, despite intensive campaigns to reduce consumption, people change their behavior only until prices decline. Iglesias praised Lawrence Berkeley National Labs' collaboration with the GOC's efficiency program and the benefits of learning from California's energy conservation experiences. He responded positively to President Obama's idea of a hemispheric strategy on energy, but did not provide specific input.

Breakfast with Business Leaders: Difficult Environment

¶8. (SBU) Chilean business leaders told DAS McMullen of the difficult environment they were facing because of the global financial crisis.

AmCham President Garcia pointed out that Chile's openness and history have helped it adapt to the effects of the crisis. Falabella Corporate General Manager Montero noted that despite the current turmoil, his company's operations throughout the region are doing relatively well. In Peru, Falabella had found it challenging to convince local employees and partners that their country was not immune to the crisis.

¶9. (SBU) CODELCO Director for Research Perez noted the company had been hit hard by rising costs and copper's current low price. Significant losses were likely and CODELCO might need to ask for a bailout, much as GM in the U.S. The company desperately needed an internal reorganization to become more competitive and efficient. Privatization might be possible, but probably only by a Concertation president, not in an election year, and definitely not while the copper law remained unchanged. The law currently stipulates that 10% of CODELCO's revenues go to the military for equipment purchases. Perez wryly wondered what entity would want to buy a company which automatically gives away 10% of its revenue every year.

Central Bank: Use Chile As An Example

¶10. (SBU) Central Bank Governor De Gregorio recommended to DAS McMullen that the U.S. promote Chile as a model of "prudent capitalism" during the global economic downturn. Chile's economy

and others' (e.g., Brazil) had some of the highest growth rates in Latin America. This might help convince countries like Ecuador or Bolivia to reconsider current policy. The prognosis for Chile's economy was relatively favorable (De Gregorio compared it to Canada). Inflation expectations were low, the Bank would likely meet its target inflation rate (3%) in three to four months, Chile's currency was strengthening, the financial system was solid, and no international lines of credit to Chile had been cut. (Note: Some banks have told Post that a few lines of credit were cut in the fall of 2008. End note.)

¶11. (SBU) De Gregorio reiterated Chile's sound economic decision-making warranted its inclusion in the G-20 or similar efforts at developing a new financial architecture. The Ambassador said the U.S. was considering how to bring additional participants into that process. DAS McMullen asked if the Bank was coordinating policy within the hemisphere. De Gregorio noted that there was a lot of communication but no actual coordination given the variety of domestic circumstances.

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